INFORMED BUDGETEER

HOUSE - PASSED BUDGET RESOLUTION: H. CON. RES. 284

- The House-passed budget resolution assumes discretionary spending savings over the Senate-passed resolution totaling $53.1 billion in budget authority and $37.7 billion in outlays.

- The table below -- an update of a similar table in last week's *Bulletin* -- reflects actual published House Budget Committee figures compared to the actual Senate- passed numbers.

- As reflected in the House- passed resolution, appropriations for international affairs, energy, environment, transportation, education, health and justice programs are significantly below assumed Senate- passed levels.

HOUSE- PASSED VS. SENATE- PASSED BUDGET
(Discretionary Totals, 1999-2003, $ in Billions)

		1999	5-year
National Defense	BA	-0.0	-0.2
	OT	--	-0.2
International Affairs	BA	-0.4	-11.3
	OT	-0.4	-8.9
Science, Space & Technology	BA	-0.3	1.0
	OT	-0.1	0.9
Energy	BA	-0.0	-3.8
	OT	-0.0	-2.4
Natural Resources and Environment	BA	-0.6	-9.7
	OT	-0.3	-7.2
Agriculture	BA	0.2	1.1
	OT	0.1	0.9
Commerce and Housing Credit	BA	1.3	5.7
	OT	1.5	5.8
Transportation	BA	-1.3	-6.1
	OT	0.0	-15.4
Community & Regional Development	BA	0.1	-2.3
	OT	-0.3	-2.3
Education, Training, Employment	BA	0.3	-4.4
	OT	0.1	-5.7
Health	BA	-1.4	-14.3
	OT	-0.7	-10.4
Medicare	BA	0.1	0.3
	OT	0.1	0.4
Income Security	BA	1.2	0.8
	OT	-0.6	3.7
Social Security	BA	-0.0	0.0
	OT	-0.0	0.1
Veterans Benefits	BA	--	2.6
	OT	0.0	2.1
Administration of Justice	BA	-0.8	-8.3
	OT	-0.6	-4.8
General Government	BA	0.5	0.2
	OT	0.8	-0.0
Allowances	BA	-0.7	-4.6
	OT	0.3	5.5
Total Defense	BA	-0.0	-0.2
	OT	--	-0.2
Total Non- Defense	BA	-2.0	-52.9
	OT	0.0	-37.5
Total Discretionary	BA	-2.0	-53.1
	OT	0.0	-37.7

SOURCE: SBC preliminary comparisons

HOW THE TOBACCO BILL SCORES

- On May 21, CBO provided a preliminary estimate of S. 1415, the National Tobacco Policy and Youth Smoking Reduction Act. The CBO letter incorporates revenue estimates done by the Joint Committee on Taxation and spending estimates done by CBO.

- Over the next ten years, the legislation would result in $152 billion in net new revenues -- $139 billion from industry payments and $12 billion from look-back assessments.

- The net revenues collected differ from the gross payments required by the legislation for four reasons. First, industry payments are converted to fiscal year totals for budget estimate display. Second, the industry payments are reduced by an income and payroll tax offset (see May 18 *Bulletin* for more information).

- Third, higher tobacco prices resulting from the legislation will result in reduced tobacco consumption and lower present law tobacco excise tax collections. Fourth, the legislation supersedes most State settlements that are implicit in the CBO baseline receipts forecast.

- CBO estimates that direct spending will increase by $89 billion over the next ten years and discretionary spending will increase by $64 billion over the next ten years due to the legislation.

- CBO also evaluated the budgetary treatment language in the legislation and concluded that, while the intent of the language is to exclude revenues not needed to offset the direct spending in the bill from the pay-as-you-go scorecard and to limit the appropriations that are excluded from the caps to the amount of the excess revenue, the budgetary treatment language does not clearly accomplish that goal.

CBO & JCT Scoring of S. 1415, Tobacco Bill
($ in Billions, Bill as Modified)

	1999	2000	2001	2002	2003	5yr	04-08	10yr
Revenues								
Industry payments	15	11	13	13	13	65	74	139
Look-back fees	--	--	--	--	--	--	12	12
Revenues	**15**	**11**	**13**	**13**	**13**	**65**	**87**	**152**
Direct Spending								
State allocation	5	5	5	5	5	25	29	54
Farmer assistance	2	2	2	2	2	10	11	21
Other mandatory	1	2	2	2	1	8	5	13
Spending	**8**	**8**	**9**	**9**	**8**	**42**	**47**	**89**
PAYGO Effect	**7**	**3**	**4**	**4**	**5**	**23**	**40**	**63**
Discretionary								
Public Health*	1	2	3	3	3	12	25	37
Health Research*	1	2	3	3	3	12	15	27
Discretionary	**2**	**5**	**5**	**5**	**6**	**23**	**41**	**64**
NET EFFECT	**-5**	**+2**	**+1**	**+1**	**+1**	**0**	**+1**	**+1**
Payments/pack ($)	*0.76*	*0.89*	*1.06*	*1.11*	*1.24*			

SOURCE: SBC Democratic Staff based on CBO, JCT scoring. *Authorization of appropriations. Details may not add to totals due to rounding.

OMB'S MID-SESSION REVIEW

- OMB recently released its Mid-Session review, which included its revised budget projections. Based on this year's stronger than expected economic growth and revenue inflows, OMB has revised up its surplus forecasts for FY1998 and for the FY1999-2003 budget window. While CBO has a more optimistic FY1998 surplus forecast, OMB's cumulative FY1999-2003 surplus estimate is now much larger.

SURPLUS ESTIMATE
($ in Billions)

	1998	1999-2003

CBO- May 1998	53	223
OMB- May 1998	39	496
OMB- February 1998	-10	220

- OMB revised up its 1999-2003 cumulative surplus by $276 billion from its February update. Seventy five percent of this came from a rise in revenues.

SOURCE OF OMB'S 1999-2003 SURPLUS REVISION ($ in Billions)	Revision Amount
REVENUES	
Economics	73
Technicals	134
Total Revenue	**207**
OUTLAYS	
Economics	46
Other	23
Total Outlays	**69**
Total Revision	**276**

- The largest factor behind the 1999-2003 revenue increase was an annual $25-29 billion technical adjustment which partially reflects the higher than anticipated individual income taxes payments on 1997 and 1998 tax liabilities. OMB believes that this year's higher individual receipts will persist throughout the budget window.

- Ninety five percent of the 1999-2003 outlays savings was due to savings in net interest, including debt service savings.

"21st CENTURY RETIREMENT SECURITY PLAN"

- On May 19, the National Commission on Retirement Policy issued its plan for Social Security and retirement policy reform.

- The Commission, which is sponsored by the Center for Strategic and International Studies (CSIS), is co-chaired by Senators Gregg and Breaux, Congressmen Kolbe and Stenholm, Donald Marron (CEO of Paine Webber), and Charles Sanders (Retired Chairman, Glaxo).

- The following is a description of the proposal as released on May 19, with cost estimates provided by the Social Security Administration. The proposal is undergoing minor modifications based on the estimates provided by the actuaries.

- **Overall Structure-** The proposal has three basic components: Social Security benefit restraint to restore solvency and allow the establishment of Individual Savings Accounts; Mandatory Individual Savings Accounts using 2 percentage points of the payroll tax; and Private Pension Simplification and Expansion.

- **Social Security Benefit Changes**- Raise the Normal and Early Retirement Ages: Under current law, the normal retirement age is slowly raised to age 67 in 2027, and the early retirement age is held at age 62. The proposal would increase the normal retirement age to 70 by 2029 and increase the early retirement age to 65. Both of these ages would be "indexed" after 2029 to life expectancy (increasing the ages by about 1 month every three years).

- Reduce Spousal Benefits: The proposal would reduce benefits for spouses of retired workers from 50 percent to 33 percent of the worker's benefit amount.

- Reduce Initial Benefits: The proposal would reduce the middle and the upper income "replacement rate" brackets (or "bend points") substantially, from 32 percent and 15 percent under current law, to about 20 percent and 10 percent after 2020, respectively. The proposal also increases the number of years used to calculate initial benefits from 35 under current law to 40.

- Consumer Price Index Minus 0.5%: The proposal would reduce cost-of-living adjustments (COLAs) by 0.5 percentage points annually.

- Establish Higher Minimum Benefits: The proposal would establish new minimum guaranteed benefits: 60 percent of the poverty line for workers with at least 20 years of covered employment and 100 percent of poverty for workers with at least 40 years of covered employment.

- Other Provisions: Eliminate the earnings test. Cover all new State and local workers under Social Security. Move certain receipts from taxing benefits from the Medicare Hospital Insurance (HI) to Social Security. Establish an enforcement mechanism to ensure solvency of the trust funds.

- **Individual Savings Accounts (ISAs)**- The proposal would **require** all workers under age 55 to put 2 percentage points of their payroll taxes into Individual Savings Accounts (ISAs). The structure is modeled closely along the lines of the Thrift Savings Plan for federal employees.

- Employers would forward employee contributions to a centrally managed fund. Workers would initially have limited investment options: a stock index fund, a private bond index fund, and a government securities fund. Over time, more fund options would be introduced. Workers would be allowed to contribute an additional $2000 annually (indexed for inflation) to ISAs. These voluntary contributions would not be tax deductible.

- **Private Pension Provisions**- The proposal includes a number of provisions which will make private pensions plans (401k's, etc.) easier for employers to offer and easier for employees to take with them when they switch jobs.

National Commisson on Retirement Policy- Social Security Proposal (Social Security Actuaries' Estimates; %of Taxable Payroll)	1997-2071
Current Actuarial Deficit	-2.23
Social Security Effects Only	
Tax Provisions:	
Establish Personal Savings Accounts	-1.82
Cover State & Local Workers	0.25
Credit OASDI w/ HI Taxation of Benefits	0.21
Subtotal, Taxes	-1.36
Spending Provisions	
Establish Minimum Benefits	-0.72
Reduce the "Bend Points"	1.72
CPI Minus 0.5%	0.71
Reduce Spouse Benefits	0.17
Increase Computation Years	0.39
Increase the Normal & Early Retirement Age	1.62
Elimimate the Earnings Test	0.00
Subtotal, Spending	3.89
TOTAL (with interactions)	**2.23**